Managing wealth – the Norwegian experience

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The 50-year crisis

- A severe financial and economic crisis
  - Serious financial distress
  - Real economy deeply affected
  - Synchronised internationally
  - First decline in global output after the Second World War
  - Huge differences in the aftermath

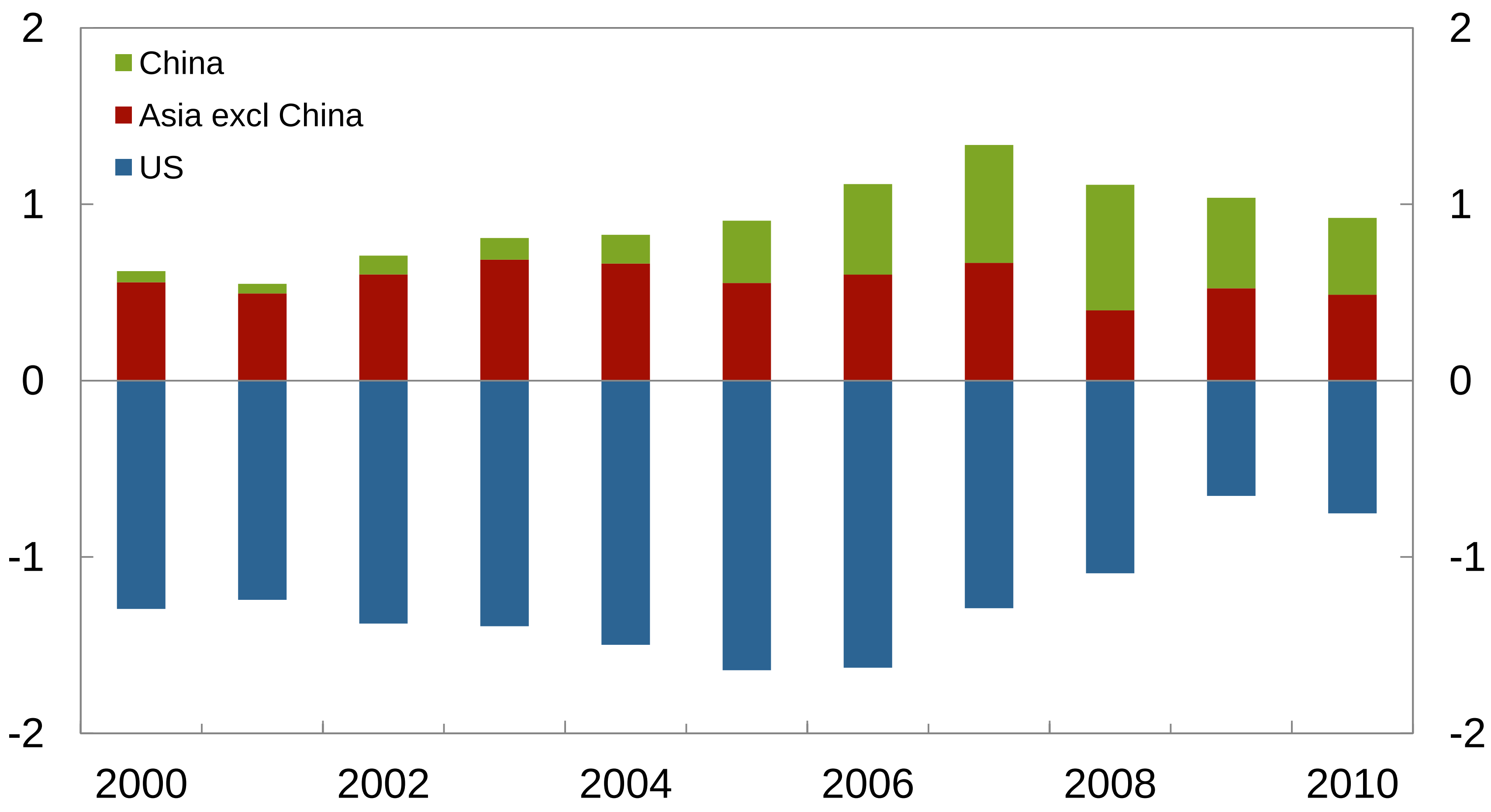
What caused the crisis?

1. Global imbalances

2. Banking regulation

Global imbalances

Current account. Per cent of global GDP



Source: IMF

New banking regulations

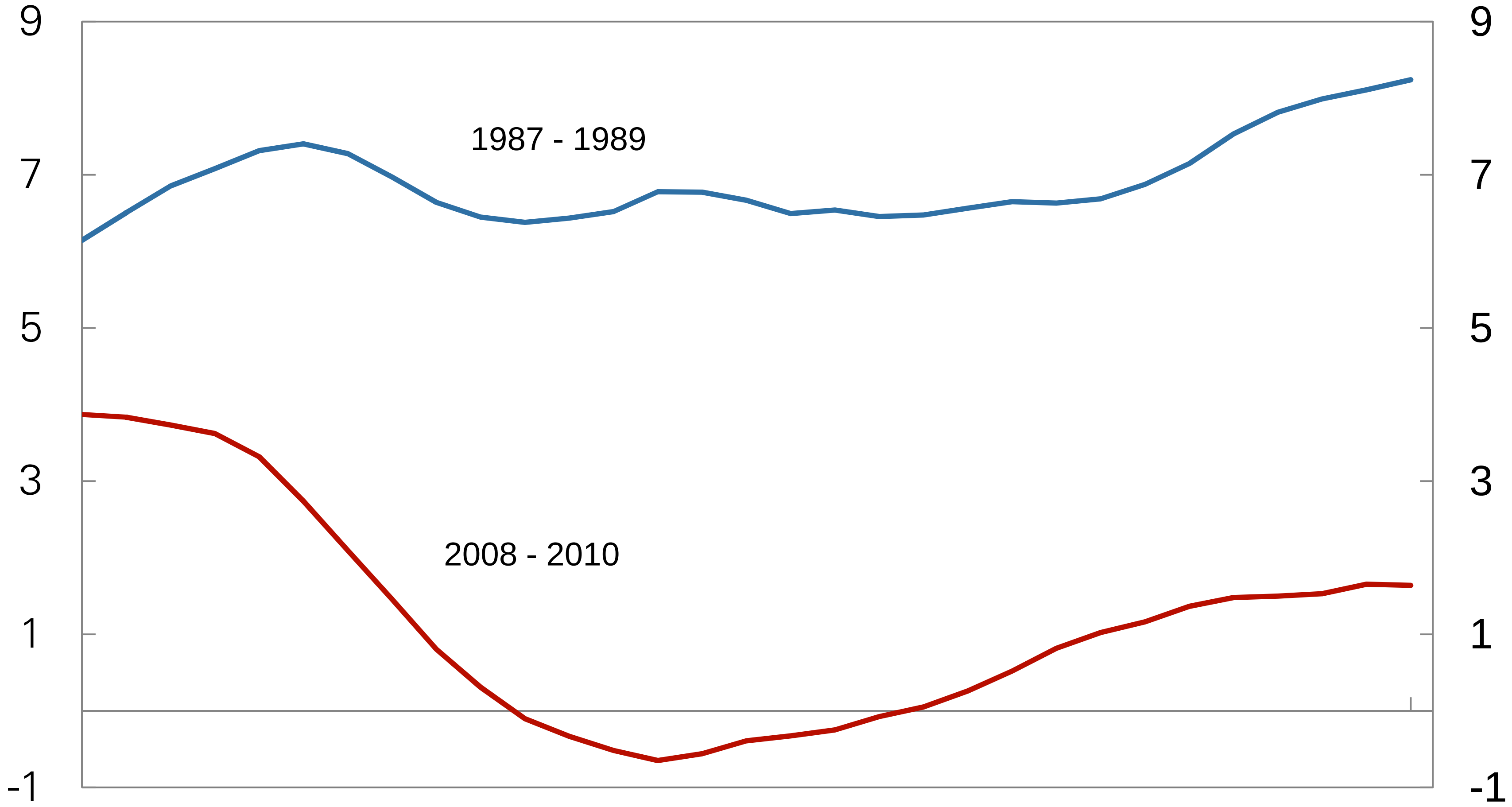
1. More and better capital

2. Macroprudential

3. Living wills

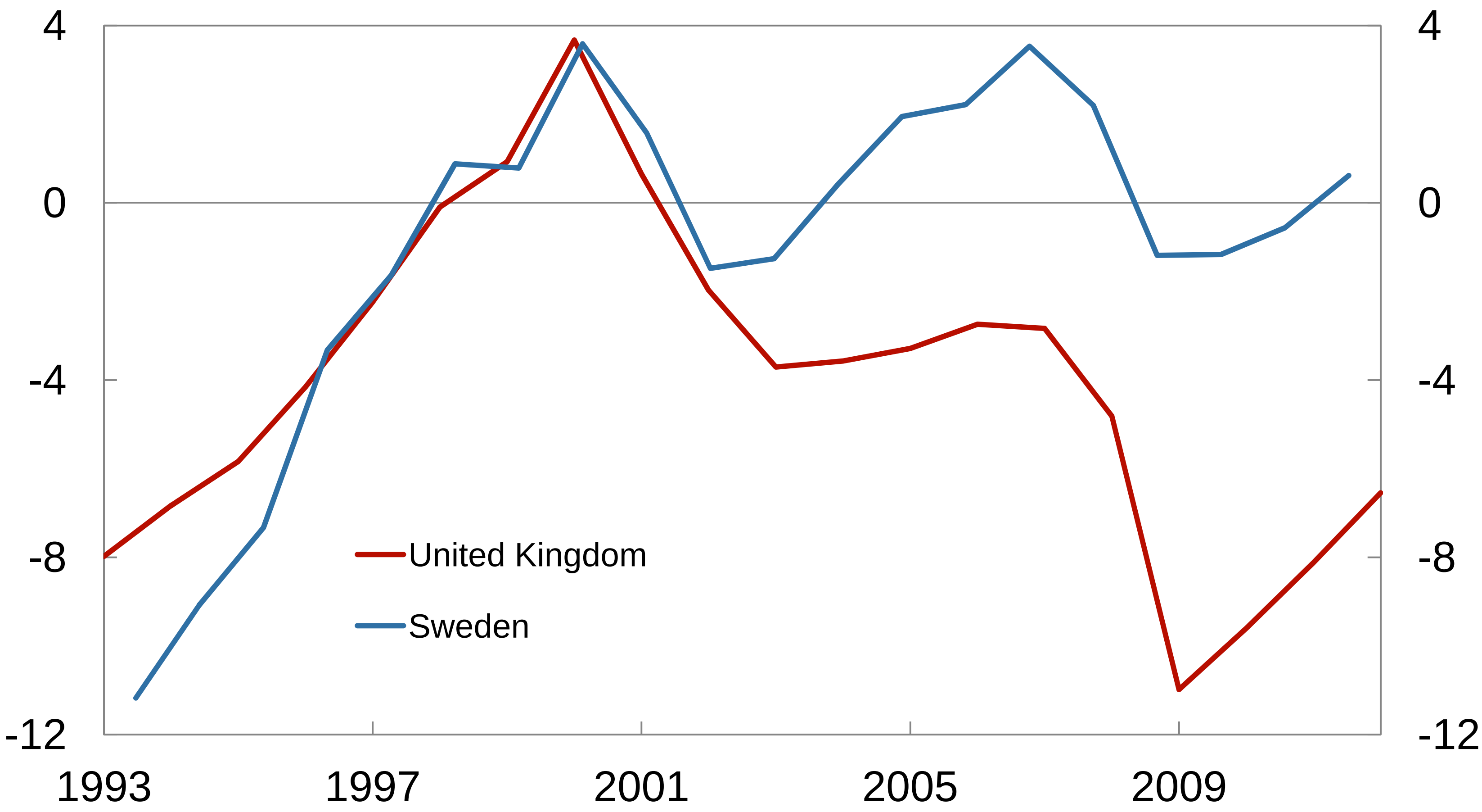
Real interest rates during two downturns

Real interest rate, Norway. Per cent



Keeping one’s house in order

Fiscal balance. Per cent of GDP



Source: OECD

4 per cent rule

- Rule of thumb: 4 per cent
  - Fiscal deficit
  - Current account
  - Unemployment
  - Inflation
- Banking assets: maximum 4 times GDP
  - Spanish regulations

Key figures

Per cent of GDP

	Fiscal balance		Public debt		Current account		Banks' assets (times GDP)	
	2007	**2010**	2007	**2010**	2007	**2010**	2007	**2010**
Greece	-6.4	**-9.6**	105	**140.2**	-15.7	**-10.6**	1.9	**2.4**
Portugal	-2.8	**-7.3**	62.7	**82.8**	-10.2	**-10.7**	2.6	**3.1**
Spain	1.9	**-9.3**	36.1	**64.4**	-10	**-4.8**	3.2	**3.5**
Italy	-1.5	**-5**	103.6	**118.9**	-1.8	**-3.2**	2.2	**2.5**
Ireland	0	**-32.3**	25	**97.4**	-5.5	**-1.1**	7.1	**8.2**
Belgium	-0.3	**-4.8**	84.2	**98.6**	3.9	**1.7**	3.9	**3.4**

Sources: EU Commission, national central banks and the ECB

Norway had its own crisis early 1990s

- Unemployment sharply up
- Preceded by fiscal overspending
- Credit binge, followed by housing market bust
- All big banks nationalised

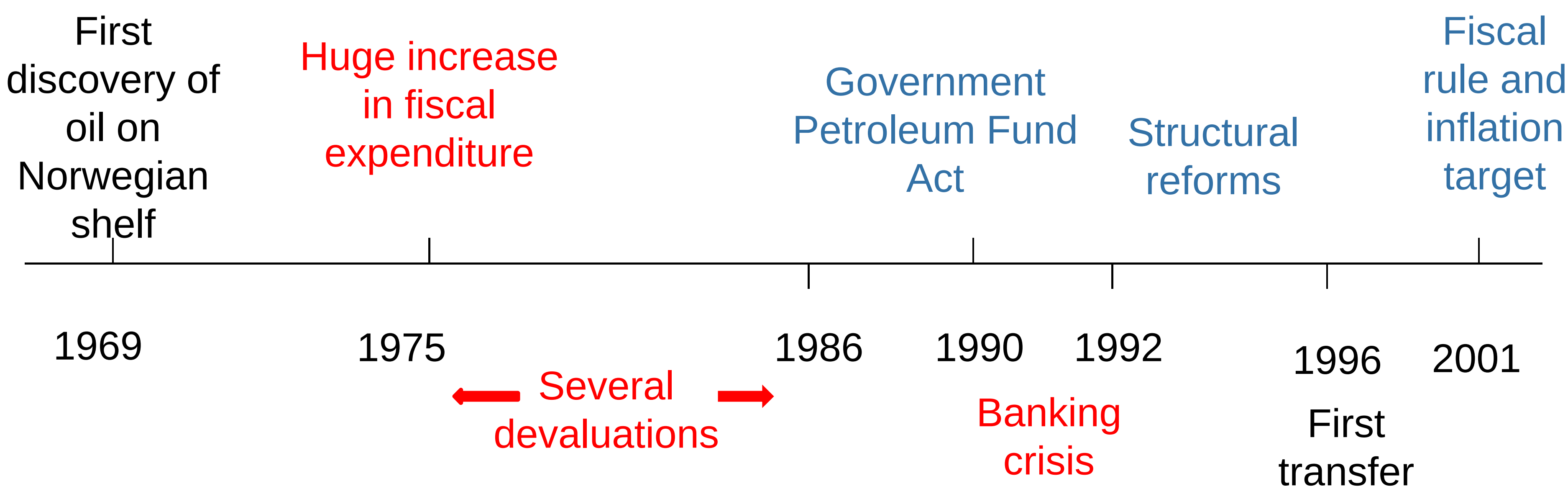
Lessons drawn from the crisis

- "The experience of the last decade clearly indicates that a capital ratio in keeping with the minimum standard set out in the statutory regulations is not sufficient to absorb losses on the scale experienced."

- "The minimum requirement for pure equity was too low, subordinated debt capital qualified too easily for inclusion in the capital base, and there was a lack of rules on capital requirements on a consolidated basis."

Financial Supervisory Authority Annual Report 1993

Crises and structural reforms



1990-2010: Two golden decades for Norway

Growth	Norway	EU-15
GDP	71 %	43 %

Crises as a window of opportunity

- Investing in reliability
  - Politically costly in the short run
  - Profitable in the long run
- Midwife of structural reforms
  - Product markets
  - Wage formation re-established
  - Monetary policy
  - Budgetary reforms

The Fund mechanism and fiscal policy

Fiscal policy guideline

Spend expected average real return of Fund

Petroleum revenues

Return on investments

Fund

Annual transfer of 4 per cent of the Fund to finance non-oil deficit

Revenues from mainland Norway

State Budget

Government expenditure

Norges Bank as investment manager

- Clear mandate from political authorities
- Financial investor
  - No controlling stakes
  - Risk and expected return
- Ethical guidelines
  - Universal investor
  - Focus areas
    - Corporate governance

Strategic asset allocation

Equities (60%)
- America and Africa 35%
- Europe 50%
- Asia and Oceania 15%

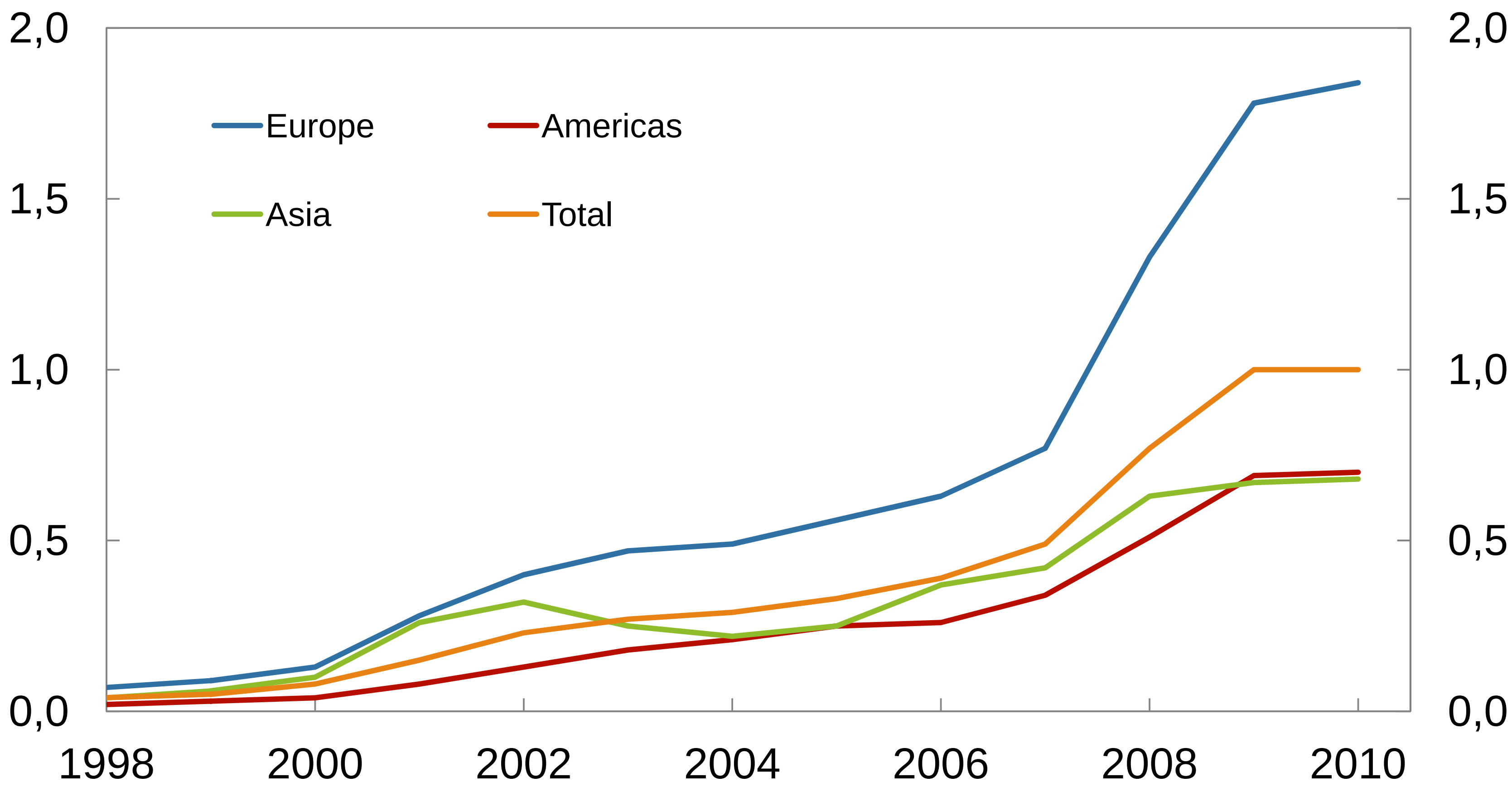
Fixed Income (35% to 40%)
- America and Africa 35%
- Europe 60%
- Asia and Oceania 5%

Real Estate (0% - 5%)

Limitations:
- No investments in Norway
- Exchange listing (for equities)
- Maximum ownership: 10%
- Risk limit: 1% tracking error

Ownership interest in equity markets

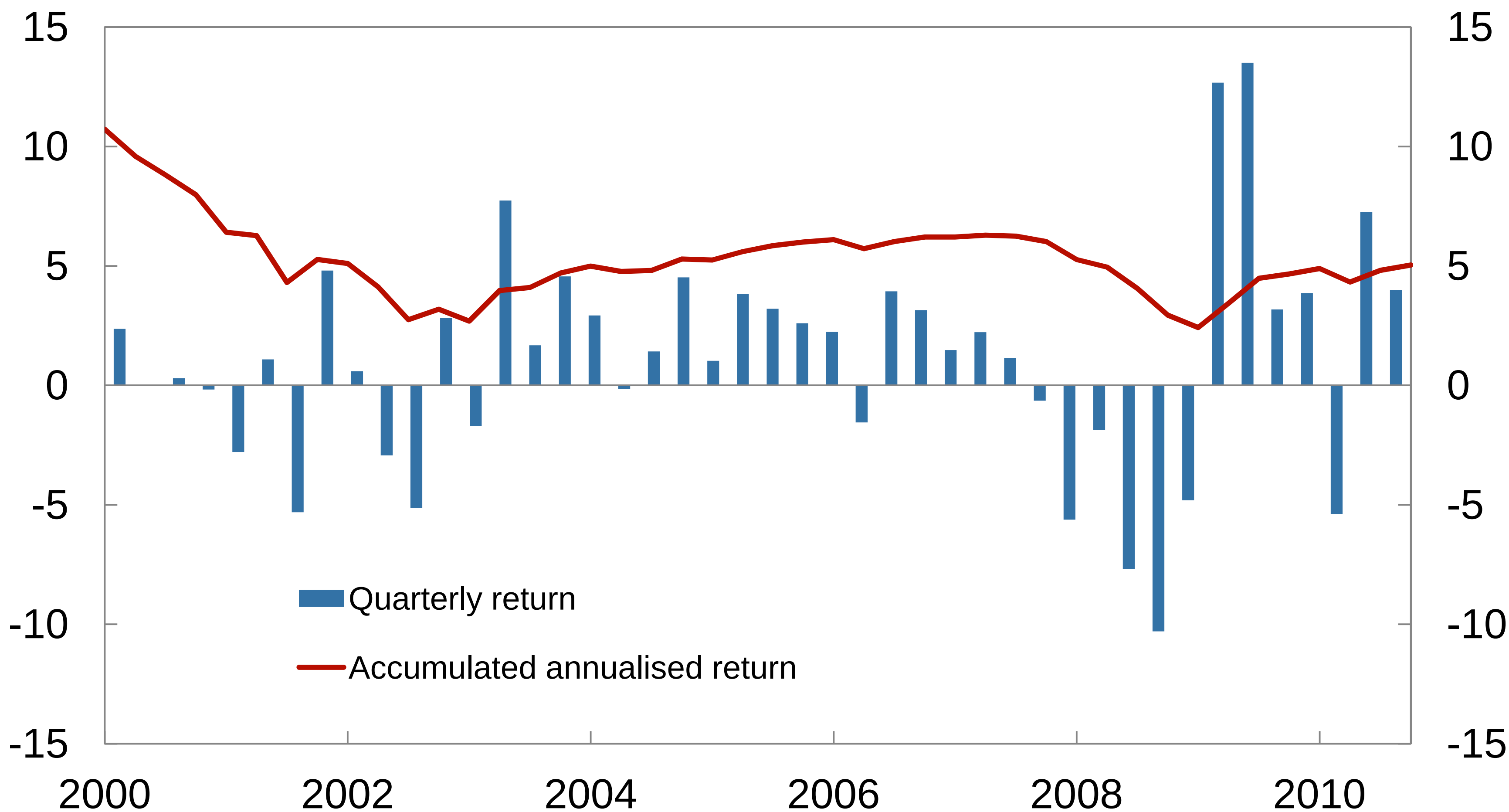
Percentage of FTSE market cap



Source: Norges Bank

Return on the Government Pension Fund Global

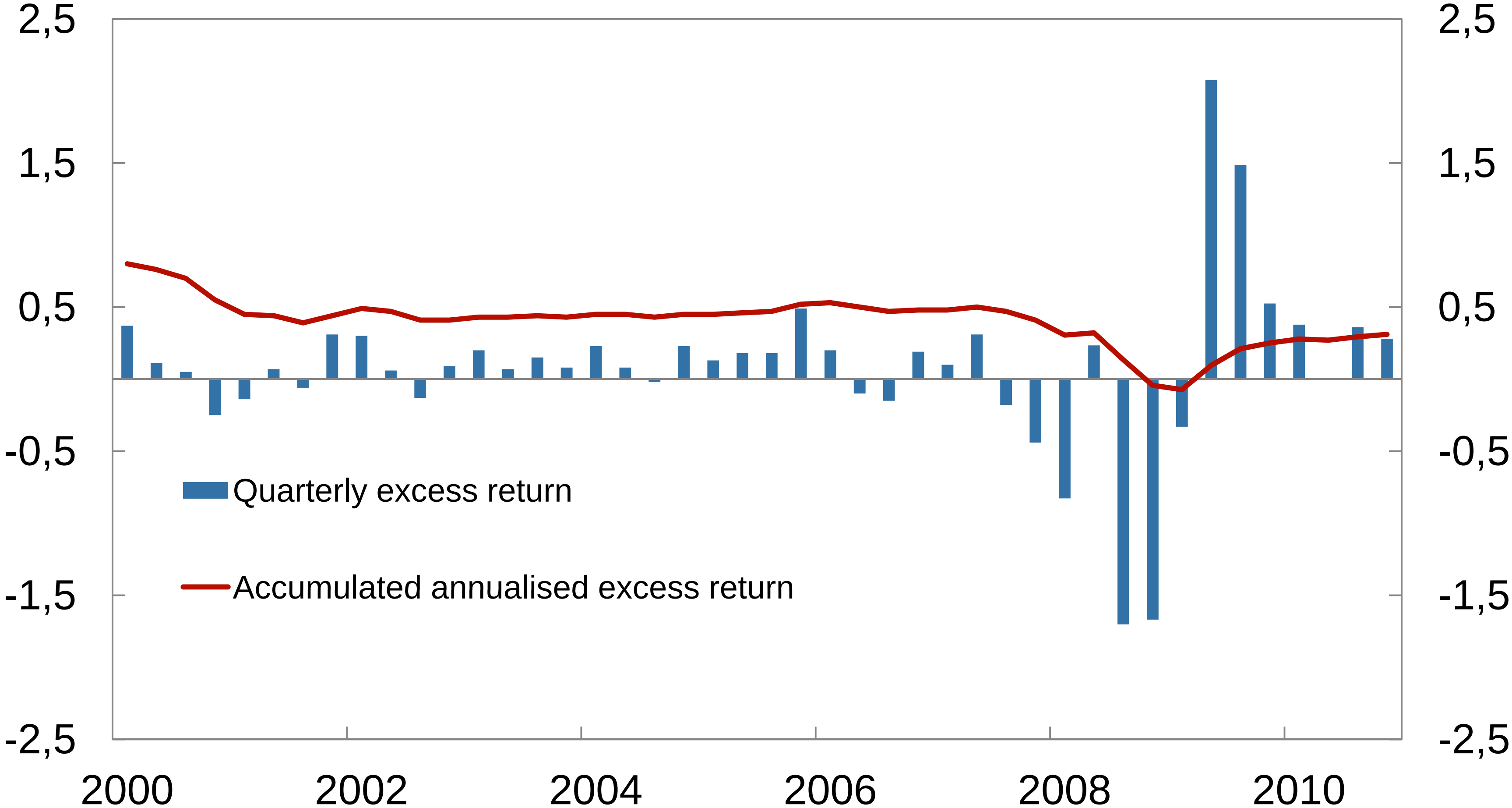
Per cent



Source: Norges Bank

Management performance

Excess return, percentage points



Source: Norges Bank

Investments in Spain

Fixed income

	Value (EUR millions)
Covered bonds	7,829
Government bonds	3,171

Equity:
- EUR 5.6 bn
- 80 companies

	Value (EUR millions)	Voting rights
Telefonica	1,287	1,7 %
Santander	1,127	1,7 %
Banco Bilbao	517	1,5 %
Iberdrola	411	1,3 %
Repsol	376	1,5 %
Inditex	228	0,7 %

Transparency of government funds

Fund (origin)	Points, 2010 (per cent)	Change from 2008 (percentage points)
Government Pension Fund Global (Norway)	97	5
CalPERS (California)	95	8
Alaska Permanent Fund	92	0
ABP (Netherlands)	85	5
GIC (Singapore)	65	24
Abu Dhabi Investment Authority	11	3

Source: Edward Truman